

SUPPLEMENTARY INFORMATION

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

GENERAL FUND

Year ended June 30, 2003

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
From local sources				
Taxes				
Property	\$ 78,545,374	\$ 78,545,374	\$ 80,419,566	\$ 1,874,192
Motor vehicle	8,509,699	8,509,699	7,700,843	(808,856)
Utilities	14,927,745	14,927,745	15,216,593	288,848
Occupational license fee	23,783,210	23,783,210	24,694,974	911,764
Tuition and fees	53,251	53,251	168,640	115,389
Earnings on investments	1,252,152	1,252,152	933,371	(318,781)
Other local revenues	1,064,008	1,062,650	1,438,493	375,843
Intergovernmental – intermediate	-	-	-	-
Intergovernmental – state	58,129,845	58,129,845	58,826,989	697,144
Intergovernmental – indirect federal	-	-	-	-
Intergovernmental – direct federal	-	-	-	-
Total revenues	186,265,284	186,263,926	189,399,469	3,135,543
Expenditures:				
Instruction	110,377,054	110,887,822	111,978,020	(1,090,198)
Support services:				
Student	8,757,615	9,205,990	9,398,412	(192,422)
Instruction staff	11,982,490	12,683,825	12,442,032	241,793
District administrative	18,499,137	15,373,870	1,580,583	13,793,287
School administrative	11,460,101	16,327,498	15,998,143	329,355
Business	11,724,264	6,790,252	7,405,316	(615,064)
Plant operation and maintenance	22,297,297	20,457,630	17,424,366	3,033,264
Student transportation	9,601,445	9,070,764	8,511,338	559,426
Central office	5,399,353	4,744,376	4,919,422	(175,046)
Facilities acquisition and construction	-	-	-	-
Community service activities	456,548	432,723	425,692	7,031
Other	-	-	-	-
Total expenditures	210,555,304	205,974,750	190,083,324	15,891,426
Excess (deficit) of revenues over expenditures	(24,290,020)	(19,710,824)	(683,855)	19,026,969
Other Financing Sources (Uses)				
Proceeds from sale of bonds	-	-	-	-
Proceeds from sale of fixed assets	-	-	8,326	8,326
Realized gains and losses and changes in market value	-	-	-	-
Operating transfers in	378,217	379,575	585,586	206,011
Operating transfers out	(572,993)	(5,153,547)	(4,614,627)	538,920
Total other financing sources (uses)	(194,776)	(4,773,972)	(4,020,715)	753,257
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(24,484,796)	(24,484,796)	(4,704,570)	19,780,226
Fund balance, July 1, 2002	24,484,796	24,484,796	23,094,938	(1,389,858)
Prior period adjustment	-	-	424,894	424,894
Fund balance, June 30, 2003	\$ -	\$ -	\$ 18,815,262	\$ 18,815,262

See independent auditor's report and accompanying notes to financial statements

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

SPECIAL REVENUE

Year ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Motor vehicle	-	-	-	-
Utilities	-	-	-	-
Occupational license fee	-	-	-	-
Tuition and fees	853,303	612,517	-	(612,517)
Earnings on investments	-	-	-	-
Other local revenues	129,333	11,702	616,562	604,860
Intergovernmental – intermediate	2,520	81,100	106,420	25,320
Intergovernmental – state	10,692,912	10,736,917	10,772,273	35,356
Intergovernmental – indirect federal	15,951,817	14,145,344	12,399,901	(1,745,443)
Intergovernmental – direct federal	-	488,569	589,787	101,218
Total revenues	27,629,885	26,076,149	24,484,943	(1,591,206)
Expenditures:				
Instruction	16,783,947	17,303,429	16,272,704	1,030,725
Support services:				
Student	6,478,142	4,441,563	3,911,940	529,623
Instruction staff	1,890,370	2,338,521	2,330,267	8,254
District administrative	-	-	26,257	(26,257)
School administrative	220,229	224,621	238,754	(14,133)
Business	-	-	-	-
Plant operation and maintenance	63,699	53,866	59,843	(5,977)
Student transportation	-	-	-	-
Central office	-	236	23,580	(23,344)
Facilities acquisition and construction	-	-	-	-
Community service activities	1,884,323	1,816,435	1,902,336	(85,901)
Other	-	-	-	-
Total expenditures	27,320,710	26,178,671	24,765,681	1,412,990
Excess (deficit) of revenues over expenditures	309,175	(102,522)	(280,738)	(178,216)
Other Financing Sources (Uses)				
Proceeds from sale of bonds	-	-	-	-
Proceeds from sale of fixed assets	-	-	-	-
Realized gains and losses and changes in market value	-	-	-	-
Operating transfers in	15,522	871,324	866,324	5,000
Operating transfers out	(395,097)	(466,057)	(585,586)	119,529
Total other financing sources (uses)	(379,575)	405,267	280,738	124,529
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(70,400)	302,745	-	(302,745)
Fund balance, July 1, 2002	70,400	70,400	864,229	(793,829)
Prior period adjustment	-	-	(864,229)	(864,229)
Fund balance, June 30, 2003	\$ -	\$ 373,145	\$ -	\$ 373,145

See independent auditor's report and accompanying notes to financial statements

FAYETTE COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

June 30, 2003

Assets and Resources:	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Permanent Funds			Total Nonmajor Governmental Funds
				Anthony Dey Trust	Lexington Industrial Trust	Schmidt Trust	
Cash and cash equivalents	\$ 2,188,901	\$ 242,936	\$ (1,122,282)	\$ 12,377	\$ 5,152	\$ 451,147	\$ 1,778,231
Inventory	-	-	-	-	-	-	-
Accounts receivable	54,032	-	-	-	-	-	54,032
Taxes – current	-	-	-	-	-	-	-
Taxes – delinquent	-	-	-	-	-	-	-
Accounts receivable	-	-	11,962	-	-	-	11,962
Intergovernmental – State	-	-	-	-	-	-	-
Intergovernmental – Indirect Federal	-	-	-	-	-	-	-
Intergovernmental – Direct Federal	-	-	-	-	-	-	-
Prepaid expenses	-	-	1,110,320	-	-	-	1,110,320
Due from other funds	-	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	3,940	3,940
Investments	-	-	-	-	-	-	-
Furniture and equipment, net	-	-	-	-	-	-	-
Total Assets and Resources	\$ 2,242,933	\$ 242,936	\$ -	\$ 12,377	\$ 5,152	\$ 455,087	\$ 2,958,485
Liabilities and Fund Balances:							
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll and related expenses	-	-	-	-	-	-	-
Current portion of accumulated sick leave	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	-	-
Fund Balances							
Reserved for:							
Inventory and fixed assets	-	-	-	-	-	-	-
Encumbrances	-	-	-	-	-	-	-
Accrued sick leave	-	-	-	-	-	-	-
Unreserved:							
Undesignated, reported in:							
General fund	-	-	-	-	-	-	-
Special revenue funds	-	-	-	-	-	-	-
Capital projects funds	2,242,933	242,936	-	-	-	-	2,485,869
Debt service funds	-	-	-	-	-	-	-
Permanent funds	-	-	-	12,377	5,152	455,087	472,616
Total Fund Balances	\$ 2,242,933	\$ 242,936	\$ -	\$ 12,377	\$ 5,152	\$ 455,087	\$ 2,958,485
Total Liabilities and Fund Balances	\$ 2,242,933	\$ 242,936	\$ -	\$ 12,377	\$ 5,152	\$ 455,087	\$ 2,958,485

FAYETTE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2003

Revenues	From local sources	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Permanent Funds			Total Nonmajor Governmental Funds
					Anthony Dey Trust	Lexington Industrial Trust	Schmidt Trust	
Taxes								
Property	\$	8,742,384	\$	\$	-	-	-	\$ 8,742,384
Motor vehicle		809,773	-	-	-	-	-	809,773
Utilities		-	-	-	-	-	-	-
Occupational license fee		-	-	-	-	-	-	-
Tuition and fees		-	-	-	-	-	-	-
Earnings on investments		140,351	17,730	43,814	182	91	9,171	211,339
Other local revenues		-	-	-	1,242	6,480	25,551	33,273
Intergovernmental – Intermediate		-	-	-	-	-	-	-
Intergovernmental – State		-	2,960,070	2,647,319	-	-	-	5,607,389
Intergovernmental – Indirect Federal		-	-	-	-	-	-	-
Intergovernmental – Direct Federal		-	-	-	-	-	-	-
Total Revenues	\$	9,692,508	2,977,800	2,691,133	1,424	6,571	34,722	15,404,158
Expenditures								
Instruction	\$	-	\$	\$	-	-	-	\$ -
Support services:								
Student		-	-	-	-	-	-	-
Instruction staff		-	-	-	-	-	-	-
Direct administrative		-	-	-	-	-	-	-
School administrative		-	-	-	-	-	-	-
Business		-	-	-	-	-	-	-
Plant operation and maintenance		-	-	-	-	-	-	-
Student transportation		-	-	-	-	-	-	-
Central office		-	-	-	-	-	-	-
Facilities and construction		-	-	-	-	-	-	-
Community service activities		-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-
Total Expenditures								
					4,366	2,785	22,597	29,748
					<u>4,366</u>	<u>2,785</u>	<u>22,597</u>	<u>20,343,966</u>
								<u>20,373,714</u>
Excess (deficit) of revenues over expenditures		9,692,508	2,977,800	(17,652,833)	(2,942)	3,786	12,125	(4,969,556)
Other Financing Sources (Uses)								
Proceeds from sale of bonds		-	-	1,062,787	-	-	-	1,062,787
Proceeds from sale of fixed assets		-	-	-	-	-	-	-
Realized gains and losses and changes in market value		-	-	-	-	-	-	-
Operating transfers in		-	-	9,066,420	-	-	-	9,066,420
Operating transfers out		(11,473,245)	(2,817,737)	-	-	-	-	(14,290,982)
Total Other Financing Sources (Uses)		<u>(11,473,245)</u>	<u>(2,817,737)</u>	<u>10,129,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,161,775)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses		(1,780,737)	160,063	(7,523,626)	(2,942)	3,786	12,125	(9,131,331)
Fund balance, July 1, 2002		4,023,670	82,873	7,523,626	15,319	1,366	442,962	12,089,816
Fund balance, June 30, 2003	\$	2,242,933	242,936	\$ -	12,377	5,152	455,087	2,958,485

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FAYETTE COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2003

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Dis- bursements</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed through the Kentucky Department of Education			
Title I, Fiscal Year 2002-2003	84.010	33-540-3103	\$ 4,420,480
Title I, Fiscal Year 2001-2002	84.010	33-540-3102	895,853
Title I, Fiscal Year 2000-2001	84.010	33-540-3101	65
Title I, Part D Delinquent, Fiscal Year 2002-2003	84.010A	33-540-3143	24,301
Title I, Part D Delinquent, Fiscal Year 2001-2002	84.010A	33-540-3142	10,467
Title I, Migrant, Fiscal Year 2002-2003	84.011	33-540-3113	178,908
Title I, Migrant, Fiscal Year 2001-2002	84.011	33-540-3112	19,389
Title I, Migrant, Fiscal Year 2000-2001	84.011	33-540-3111	1,529
Title I, Accountability Grant, Fiscal Year 2001-2002	84.348	33-540-3272	55,190
Title I, Accountability Grant, Fiscal Year 2000-2001	84.348	33-540-3271	31,900
Title I, Neglected & Delinquent, Fiscal Year 2002-2003	84.013A	33-540-3133	20,910
Title I, Neglected & Delinquent, Fiscal Year 2001-2002	84.013A	33-540-3132	193
Title I, Capital Expenses, Fiscal Year 2002-2003	84.216	33-540-3262	1,434
Title I, Capital Expenses, Fiscal Year 2001-2002	84.216	33-540-3163	17,529
Title I, Part A School Improvement, Fiscal Year 2002-2003	84.101	33-540-3203	10,906
 Title VI, Fiscal Year 2002-2003	 84.298	 33-540-3343	 110,187
Title VI, Fiscal Year 2001-2002	84.298	33-540-3312	28,254
 IDEA-Basic, Fiscal Year 2002-2003	 84.027	 33-540-3373	 820,518
IDEA-Basic, Fiscal Year 2001-2002	84.027	33-540-3372	2,864,821
IDEA-Basic, Fiscal Year 2000-2001	84.027	33-540-3371	26,332
IDEA-Part B, Preschool, Fiscal Year 2001-2002	84.173	33-540-3432	155,930
IDEA-Part B, Preschool, Fiscal Year 2000-2001	84.173	33-540-3431	63,114
IDEA - Silver, 2001-2002	84.027	33-540-33725	51,926
 Title II, Eisenhower Professional Development, 2001-2002	 84.281	 33-540-4042	 155,681
Title II, Eisenhower Professional Development, 2000-2001	84.281	33-540-4041	9,116
Title II, Teacher Quality, 2002-2003	84.367A	33-540-4013	1,165,754
 Title IV, Drug Free Schools, Fiscal Year 2002-2003	 84.186	 33-540-4063	 24,807
Title IV, Drug Free Schools, Fiscal Year 2001-2002	84.186	33-540-4062	129,049
Drug Free Schools and Comm. Act, Fiscal Year 2001-2002	84.186	33-540-4061B	25,051
 Goals 2000, Educate America, 2001	 84.276	 33-540-4131E	 15,721
 Class Size Reduction, 2002	 84.340	 33-540-3882	 31,212
 Comprehensive School Reform, 2003	 84.332	 33-540-3082R	 190,548
Comprehensive School Reform, 2002	84.332	33-540-3081R	2,335
 Vocational Education, Perkins Fund, 2002	 84.048	 33-540-3482A	 5,768
Vocational Education, Perkins Fund, 2001	84.048	33-540-3481A	4,826
Vocational Education, Perkins Fund, 2002	84.048	33-540-3482	72,365
Vocational Education, Perkins Fund, 2003	84.048	33-540-3483	322,645
Vocational Education, Perkins Fund, 2001	84.048	33-540-3481	623
 Smaller Learning Communities	84.215L	N/A	147,251
 Technology Preparation Grant	84.243	N/A	18,137

FAYETTE COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended June 30, 2003

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Dis- bursements</u>
Technology Literacy Challenge Fund, 2002	84.318	33-540-3851	\$ 31,709
Emergency, Immigrant Grant, 2003	84.162	33-540-3453	139,724
Emergency, Immigrant Grant, 2002	84.162	33-540-3862	51,910
Reading Excellence Grant, 2001	84.338	33-540-3891	7,885
Enhancing Education through Technology	84.318X	33-540-4253	197,485
Passed through the Counsel of Post Secondary Education			
School to Work, Gear Up, 2003	84.334A	33-540-3793G	77,566
School to Work, Gear Up, 2002	84.334A	33-540-3792G	19,643
School to Work, Gear Up, 2001	84.334A	33-540-3791G	4,031
Direct Program			
Magnet Schools Assistance, 2001	84.165A	N/A	22,770
21st Century Community Learning, 2003	84.287K	N/A	13,835
21st Century Community Learning, 2002	84.287K	N/A	47,763
Total U.S. Department of Education			<u>12,745,346</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through the Kentucky Department of Education			
National School Lunch and School Breakfast Program	10.555	N/A	5,271,476
Passed through Kentucky Department of Agriculture			
Food Distribution	10.550	N/A	544,720
Total U.S. Department of Agriculture			<u>5,816,196</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Early Childhood Prevention, 2003	92.230	33-540-5343K	82,017
Early Childhood Prevention, 2002	92.230	33-540-5343K	2,150
Refugee Children School Impact Grant, 2002	93.576	N/A	1,234
Foreign Language Assistance Grant	84.293B	N/A	162,189
Foreign Language Assistance Grant	84.293B	N/A	11,607
Total U.S. Department of Health and Human Service			<u>259,197</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Jobs for Kentucky Graduates, 2002	17.259	33-540-3823	38,253
School to Work, 2003	17.249	33-540-3793	10,522
School to Work, 2002	17.249	33-540-3792	469
Total U.S. Department of Labor			<u>49,244</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
ROTC, Fiscal Year 2003	12.000	N/A	93,340
ROTC, Fiscal Year 2002	12.000	N/A	26,031
			<u>119,371</u>

FAYETTE COUNTY SCHOOL DISTRICT**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**

Year ended June 30, 2003

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Dis- bursements</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Law Enforcement Block Grant	16.592	N/A	<u>862</u>
Total U.S. Department of Justice			<u>862</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>			
Service Learning Grant	94.004	N/A	<u>4,581</u>
Total Corporation for National and Community Service			<u>4,581</u>
<u>NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION</u>			
Bluegrass Pride	11.469	33-540-2723	<u>2,115</u>
Total for National Oceanic and Atmospheric Administration			<u>2,115</u>
Total Federal Financial Awards			\$ <u>18,996,912</u>

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2003

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fayette County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FAYETTE COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified
that are not considered to be material
weaknesses? _____yes X none reported

Noncompliance material to financial
statements noted? _____yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified
that are not considered to be material
weakness(es)? _____yes X none reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555	National School Lunch Program
84.010	Title I
84.027	IDEA Basic
84.048	Perkins Fund - Vocational Education
84.367A	Teacher Quality
84.215L	Smaller Learning Communities

Dollar threshold used to distinguish
Between type A and type B programs: \$ 471,586

Auditee qualified as low-risk auditee? _____yes X no

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

FAYETTE COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2003

There were no prior year audit findings.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Fayette County School District
Lexington, Kentucky

We have audited the financial statements of Fayette County School District as of and for the year ended June 30, 2003 and have issued our report thereon dated September 23, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and state audit requirements.

Compliance

As part of obtaining reasonable assurance about whether Fayette County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or state audit requirements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fayette County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Fayette County School District in a separate letter dated September 23, 2003.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Fayette County School District, the Kentucky Department of Education management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Carpenter, Mountjoy & Bresler, P.S.C.

Lexington, Kentucky
September 23, 2003

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Fayette County School District
Lexington, Kentucky

Compliance

We have audited the compliance of Fayette County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Fayette County School District's major federal programs are identified in the accompanying schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Fayette County School District's management. Our responsibility is to express an opinion on Fayette County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and state audit requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fayette County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fayette County School District's compliance with those requirements.

In our opinion, Fayette County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Fayette County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Fayette County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contract and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Fayette County School District, the Kentucky Department of Education management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Carpenter, Mountjoy & Bresley, A.C.

Lexington, Kentucky
September 23, 2003

MANAGEMENT LETTER COMMENTS

Carpenter, Mountjoy & Bressler

Certified Public Accountants and Advisors

Members of the Board of Education of
Fayette County School District
Lexington, Kentucky

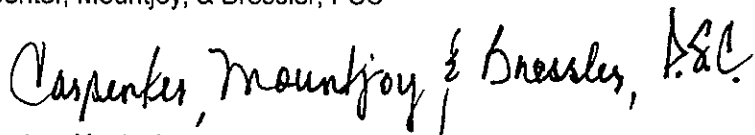
In planning and performing our audit of the financial statements of Fayette County School District for the year ended June 30, 2003, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated September 23, 2003 contains our report on the District's internal control structure. This letter does not affect our report dated September 23, 2003 on the financial statements of the Fayette County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Carpenter, Mountjoy, & Bressler, PSC



Lexington, Kentucky
September 23, 2003

FAYETTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2003

UNCORRECTED PRIOR YEAR COMMENTS

Inventory

Under GASB 34 the District's government-wide financial statements must use the accrual method of accounting. This includes recording inventory. During our audit of inventory, we noted that the process of collecting inventory data from the various funds and adjusting the general ledger for the inventory balances was not performed. We also noted the District maintained a significant amount of inventory related to the Transportation and Maintenance departments and these inventories have gone unreported in prior periods. We calculated inventory balances as of June 30, 2003 for each fund and provided the District with journal entries to record these balances. The physical inventory of the Warehouse, Print Shop, Food Service, Transportation and Maintenance departments was coordinated by different individuals and each fund had different counting procedures. The District does not have any written policies or procedures for the counting, data collection valuation and recording of inventory. In addition, no District personnel independent of the counting procedures reviewed the final inventory schedules for accuracy or completeness.

Based on the above, we recommend that the District appoint a qualified individual to coordinate all departments in counting District inventories, collecting final inventory balances, reviewing year end schedules and booking the necessary adjustments to the general ledger. The District should also develop and document written inventory policies and procedures to be used by all departments that include the proper use of the inventory software utilized. A qualified individual independent of the counting procedures should review final inventory schedules for completeness and accuracy.

Management's Response

The District will adopt the inventory management procedures used successfully by the Food Service division. Each Associate Director shall appoint one person to be responsible for the maintenance and management of the inventory. The internal auditor will randomly sample these inventories for compliance, accuracy and completeness.

Fixed Assets

Under the implementation of GASB 34 the District was required to record fixed assets and the related debt obligation. Based on the magnitude of this change in accounting and the size of the District's depreciation schedule, we recommend that an individual be assigned the responsibility of maintaining and reviewing the schedule for completeness and accuracy and reconcile the schedule to the general ledger. This individual could also have inventory responsibility as mentioned in the previous comment.

Management's Response

The Director of Financial Services will develop a plan to realign duties to free up a degreed accountant to assume responsibility for managing and accounting for fixed assets. This will include revising existing policies and procedures and reconciling the fixed asset accounts monthly.

FAYETTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2003

UNCORRECTED PRIOR YEAR COMMENTS - continued

Accounts Payable

The accounts payable detail should be reconciled to the balance sheet at year-end. To record the year-end accounts payable the technology department creates a report which details all invoices dated prior to June 30 and paid after June 30. This report is used to create the journal entries necessary to record accounts payable. During our testing we noted that the totals on the detail report did not agree to the balance sheet. We recommend that the accounts payable detail be reconciled to the balance sheet at June 30.

Management's Response

To record accounts payable, it is necessary to pull the data on invoices dated prior to June 30 but received and processed after June 30. Since the department does not have access to a report writer, we must rely on Technology to pull the data. Technology has always been very cooperative but invariably we have items pulled into the file that are not accounts payable. The accounting staff has always handled these as they post the accounts payable entry. What has not happened is that the accounting staff has not shared the reconciling items with the auditors until they ask for them. In the future, the accounting staff shall note the reconciling items on the file received from Technology to assist the auditors in understanding the difference between the booked entry and the file generated by Technology.

FAYETTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2003

CURRENT YEAR COMMENTS

Food Service

The District began using the MUNIS system July 1, 1996, but MUNIS is not utilized as the primary system for Food Service. Food Service is not using on-line purchase orders and as a result invoices cannot be monitored by the District's internal control system. We were informed that the on-line purchasing system would not meet the needs of food service because the majority of the items purchased require expedient processing to ensure products are received timely for meal preparation. Food service receipts and disbursements are being recorded in MUNIS monthly through a process of downloading the detail from other software programs into the MUNIS system, and Food Service accounting records are being maintained separately on spreadsheets, which is a duplication of effort. In addition, fixed assets purchased by Food Service cannot be downloaded into the District's depreciation module because Food Service is not on MUNIS. Consequently, fixed assets purchased by Food Service must be maintained in separate depreciation software. We recommend that the Food Service department be fully integrated on the MUNIS system as soon as possible to ensure accurate overall district financial reporting, reduce duplication of effort and strengthen internal controls.

Management's Response

A task force will be convened to develop a time line and process for converting to MUNIS. The task force will include the Associate Director of Food Services, Technology representatives, and the Director and Associate Director of Financial Services. The conversion process will address the needs for management reports, purchase order and invoice processing and management of fixed assets. The task force will be asked to report to the cabinet in November 2003.

Cross Training

During our audit, we noted that the District is not taking the proper steps necessary to cross-train personnel in the Budget department. Functions and responsibilities can only be performed by a single individual because of lack of cross-training can create internal controls to be ineffective as well cause inefficiencies when personnel are required to perform new functions in which they are not properly trained. We recommend that the District take the necessary steps to ensure that personnel are being cross-trained to perform all primary finance, budget and accounting functions.

Management's Response

Over the past three years, various departments have engaged in extensive cross training of staff so that the District's business can be conducted seamlessly when one or more key players are out or incapacitated. The Budget Office is made up of three employees who all have the same MUNIS security rights and while each individual deals with their component they all can update/change the budget amounts. The Budget Office has been working together so that the individual components are understood by each employee and will continue the cross training until all facets are known by everyone in the Budget Office.

FAYETTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2003

Payroll and Human Resources

During our review of the internal controls of the Payroll and Human Resources Departments, we noted that certain personnel in both departments have the ability and responsibility to make necessary changes to employee payroll data such as hours worked, hourly rate, deductions, etc. However, no internal controls exist to monitor changes made to payroll data in order to detect improper adjustments. We recommend that an individual independent of both departments be assigned the responsibility of monitoring changes made to employee payroll data and agreeing changes to proper supporting documentation.

In addition, during our testing of payroll deductions, we found one instance in which the District did not properly withhold a full time employee's CERS deduction. According to KRS 78.615, CERS "employee contributions shall be deducted each payroll period from the creditable compensation of each employee of an agency participating in the system while he is classified as a regular full-time" employee. The instance of non-compliance consisted of an employee who was part-time and changed to full-time. We recommend the District assign a qualified individual to review compliance regarding employees who have employment status changes during the year.

Management's Response

The internal auditor will perform random compliance audits within both departments and document the testing and any recommendations resulting from the audits. There will be a review with the internal auditor, the department directors and staff affected to look at improving procedures and streamlining the process.

Post Approvals

During our testing of expenditures, we noted three invoices which were paid through the post approval process that did not appear to meet the written criteria for post approvals. All post approval invoices should be in accordance with the established policy.

Management's Response

All staff have received notice of the criteria for post approval checks. In the future, the director and associate director of financial services shall review and sign off on all post approvals prior to processing. The internal auditor shall continue to monitor compliance and make recommendations.

Internal Audit Function

The internal audit function should monitor the District's internal control system including operating activities, testing accounting transactions, reviewing for compliance with internal and external policies and agreements, assessing the risk of potential financial statement misstatements, and maintaining the documentation to support testing results and conclusions. We have not relied on this type of testing because the documentation is not maintained. The District could strengthen its system of internal controls if the internal audit function was designed to provide actual auditing procedures and testing results. Currently, the District's internal auditor is primarily responsible for duties unrelated to internal auditing.

FAYETTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2003

Management's Response

The internal audit department has a staff of one. The superintendent determines the role and the focus of the internal auditor's work. Specific tasks are determined by events occurring throughout the year. In addition to the financial sampling and compliance audits, the internal auditor is involved when outside agencies inquire about our practices and procedures. Past activities have included MUNIS security monitoring, codifying the purchasing procedures, review of large unpaid balances with vendors and issues related to internal control to name a few.

The superintendent and internal auditor will develop an annual plan for internal auditing that will include addressing the issues raised here.

Budget

Upon review of the budget, we noted the District does not include an estimate for sheriff fees in the budget. In fiscal year 2003 sheriff fees were approximately \$872,000.

Management's Response

Prior to 2001, the District allowed the sheriff to subtract the collection fee from the amount of tax revenues submitted to the District. This was determined to be inconsistent with the statutes and the sheriff was notified that they must transfer all taxes collected with no withholdings to the District daily. The District was instructed to issue payment for the tax collection fee expense promptly to the sheriff.

While the expenditure was recorded, the budget has not reflected the expense. The oversight has been corrected.

Management Departments

During the course of the audit we inquired of and observed many of the primary departments which involve management including finance, accounting, budget, human resources, payroll, accounts payable, technology, food service and purchasing. Based on our observations we became aware that certain audit efficiencies could be created if management operated as a centralized unit with regards to audit inquiries and requests. We recommend that all management departments work towards cooperative effort related to audit responsibilities and the audit schedule and agreed upon deadlines.

Management's Response

The Director of financial services will serve as the liaison between the auditors and the various departments. The auditors will submit their request for information to the Director and he shall obtain the necessary information and documentation to submit to the auditors.

FAYETTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2003

Inventory

During our observation of the Warehouse and Transportation department's physical inventory as of June 30, 2003, we became aware of certain internal control weaknesses in the procedures that are used to maintain the perpetual inventory balances. We noted several instances in which the year end physical counts varied widely from the year end perpetual records. The discrepancies were primarily caused by poor monitoring of inventory disbursed for use by the maintenance department. We recommend the District develop and enforce controls requiring District personnel to complete and sign a requisition form when removing parts and supplies from inventory.

Management's Response

The District will adopt the inventory management procedures used successfully by the Food Service division. Each Associate Director shall appoint one person to be responsible for the maintenance and management of the inventory. The internal auditor will randomly sample these inventories for compliance, accuracy and completeness.

Accounts Payable

During our review of the District's accounts payable open invoice file, we noted several past due invoices, varying from thirty days to one year past due, that were unpaid because the receiving report had not been properly submitted to the accounts payable department. When goods are delivered directly to the schools, it becomes the principal's responsibility to remit the signed receiving report to the accounts payable department for payment. We recommend the District review its current purchasing and receiving policy for its effectiveness in paying accounts payable on a timely basis.

Management's Response

The District agrees and we have begun to look at re-engineering the manner in which we procure goods and pay bills. We are aging our accounts payables and identifying the vendors from whom we procure the most dollar volume. Studies have shown that 10-15% of an organization's vendors account for 90% of the procurement. Our approach is we target these vendors first. Staff will develop a plan to submit for consideration in November.